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C O N F I D E N T I A L MANAMA 001225

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TAGS: [PREL](#) [ETRD](#) [KTEX](#) [ELAB](#) [BA](#) [KSEC](#) [KINR](#)

SUBJECT: (C/NF) MINISTER OF INDUSTRY TALKS SECURITY AND FTA

Classified By: CDA Susan Ziadeh, Reasons 1.4 (b) and (d)

(C/NF) SECURITY

(C/NF) 1. Minister of Industry--and more importantly trusted Senior Advisor to the King (and a member of his informal kitchen cabinet)--Dr. Hassan Fakhro opened and closed his August 2 welcoming meeting with Charge by addressing our current security relationship. The Minister straight-away said that the possible DODDS Bahrain School closure is unsettling to many in Bahrain, noted its central role in cementing the bilateral relationship, and pressed for the issue to be resolved soon. Charge said that, with the school year fast approaching, the USG is moving toward a final decision.

(C/NF) 2. The Minister, who attended the G-8 Sea Island Summit with the King, noted that the King has tremendous respect for President Bush and that he and the Crown Prince have strong relations with the Administration. Having established the King's and the Crown Prince's pro-U.S. stance, the Minister said that "higher-ups" would work with the Embassy on all issues, security in particular, and would provide answers to satisfy us, if we let them know what it is that we need. The Minister sees a lack of communication as the root cause for the current state of the U.S.-Bahraini security relationship and offered personally to act as Embassy's direct but informal channel to the King. Most importantly, the Minister said that in times of stress, it is important to maintain a cool head, to communicate, and not to overreact. "Overreaction can create problems," was his final statement.

(U) FTA

(U) 3. On FTA, Minister Fakhro told Charge August 2 that Bahrain depends on the U.S. for its economic guidance. Responding to Charge's question of what we could do to help implement FTA successfully, the Minister said that USG and consultants are already studying available resources to maximize benefits. He said business, too, particularly in the textiles sector, is studying the text of the FTA carefully to discover in the fine print ways to profit from the agreement. The ongoing public comment period is helping the learning process along, and one day, the Minister noted, "we will all be wiser." There is already interest in new industrial investment, and the Minister expects this interest to increase once the FTA is finalized.

(U) 4. Exhibiting Pollyanna-like optimism, the Minister pointed to tremendous post-FTA textile job creation in Jordan, and said that he expects the textile and garment industry sector to benefit most from the FTA. He noted the industry's interest in expanding existing factories and starting new garment factories. These developments would affect employment considerably, he said, especially if Bahrainization rates reach the targeted 80 to 90 percent. Asked about the industry's ability to compete with global labor markets, the Minister admitted that industry would need to work on this issue, but quickly added that the people employed in this industry would not readily be employed otherwise, and so would be willing to accept "reasonable" salaries, allowing the factories to remain competitive.

(C) 5. Comment: Fakhro is clearly worried that closure of the school will damage Bahrain's ability to attract foreign direct investment, undercutting the positive momentum of the FTA signing. For moderate, oil-poor and majority Shi'a Bahrain, a loss of economic confidence or flight of expat businesses to Dubai and other regional locales offering competitive services - including top-flight schools - would be a heavy blow that could slow, if not derail, the GOB's political and economic reform program.

ZIADEH